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# ASPECTS OF PUBLIC OWNERSHIP

BY SYDNEY BROOKS

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## IV

IN the previous articles in this series I have endeavored to establish certain points that may now be summarized with advantage to the clearness of the general argument. The first was that there is nothing creditable or derogatory in a more or a less acceptance of public ownership; that some of the most backward as well as some of the most advanced countries in the world have nationalized or municipalized a variety of public services that other nations, equally low and equally high in the scale of civilization and of prosperity, have preferred to leave in private hands; and that though the spirit and tendency of the times seem to point to an increasing expansion of State and municipal activities, the movement as yet is too young to enable one to prophesy its permanence or to claim it as a necessary element of progress. It is just as likely to lead to bankruptcy as to the paradise of the Socialists, and to a sustained reaction as to the extinction or supersession of the capitalistic system. No one who opposes it or is out of sympathy with it need fear the taunt with which he is sure to be assailed that he is withstanding "Destiny" or "Progress." No one who advocates it either as a general policy or in particular instances need waste more than a contemptuous smile on the reproach that he is thereby undermining the foundations either of society or of industry. The entrance of public authorities into the field of commercial enterprise is too recent a phenomenon, and its ascertained effects are too meager and contradictory to make it a suitable peg for such spacious generations as these. The more, indeed, we free ourselves from loose and grandiose abstractions about the evolution of our industrial and social systems the more

likely are we to strike a just mean in our judgment of the problems of public ownership.

Another point for which I have pleaded is that in the absence of any universal guiding principle each case of public ownership, each proposal to take a given utility under public control and management, must be tested on its merits, with an exclusive regard to all the local conditions that are likely to affect the project, and with no reliance on what other States or cities may have done or failed to do in circumstances which, however similar in appearance, can never be the same in reality. Every one remembers how, when Chicago in 1905 declared in favor of the municipalization of the street railways, the Mayor-elect invited Mr. Dalrymple, the manager of the Glasgow municipal tramways, to confer with him on the situation; how Mr. Dalrymple landed in the United States an ardent advocate of public ownership; how a few weeks in Chicago were enough to convince him that he had failed to allow for the utter dissimilarity of local conditions; and how he returned home saying in effect that Glasgow's meat would be Chicago's poison. That incident merely illustrated in a highly striking and personal form the conclusion to which every student of the general question finds himself irresistibly impelled—the conclusion that analogies drawn from one city to another, particularly when they are situated in different countries, and even from one public utility to another, are worthless, and worse than worthless.

A third contention, and a very important one, which these articles have sought to uphold is that the alternative is not, as it is commonly stated to be, between public ownership and the present system of private ownership, but between public ownership and an attainably better system of private ownership than now, generally speaking, obtains. The demand for the nationalization or the municipalization of the public utilities has many aspects. In part it is an extension of the same process of economic evolution which has given us already the big store and the monopolistic trust; in part it is a branch of a deliberate policy for transforming society by eliminating capitalism or by restricting it to spheres where it cannot clash with the larger public interests; in part also it represents the normal ambitions of every elected body to add to its powers and opportunities—ambitions that in an industrial age are bound to take on an increasingly industrial form. But above everything else, the cry for pub-

lic ownership is the outcome of the inadequacies, the friction, and in certain countries the corruption, of private enterprise in its relation to civic or national services. That is one of the central facts of the situation which can neither be ignored nor evaded. Either, as in Great Britain, private enterprise is roundly declared to be not enterprising enough for modern public needs, or, as in the United States, where its technical efficiency is less sharply challenged, it is accused of contaminating civic life and of disregarding or overriding the interests of the community for the sake of dividends. In either case, and whether their failings are mainly on the business or the moral side, it is the conduct of the corporations themselves that has given the chief point and stimulus to the agitation for public ownership. Dissatisfied with the abuses and shortcomings of the one system, people have rushed to embrace its precise opposite, believing that reform could only be effected by revolution, and heedless of the yet greater evils that revolution in its turn might bring upon them. As against this policy I have tried to show that the better way is not the banishment of private enterprise from the public-service field, but its stricter and more sensible regulation, and that half the case for municipal intervention in competitive trading would fall to the ground if corporations, while losing nothing of their efficiency and initiative as business organizations, were compelled to observe a more alert and constant regard for the interests of the community. The form this compulsion might take was outlined, and something more than outlined, in the second article of this series; and though the scheme there suggested may doubtless be criticized with much effect, its underlying contention—that it is possible so to regulate private ownership and management of the public services as to safeguard every right of the community and at the same time preserve the advantages of individual enterprise and the incentive of gain—is in my view very near the heart of the whole controversy.

A further point that it has been sought to develop is the difficulty of instituting any comparison between the financial results of municipal and of joint-stock-company trading. The difficulty arises from the fact that a municipality and a corporation must mentally regard any given undertaking from different points of view, the latter thinking mainly of its shareholders and dividends, and the former of the advan-

tages, which may be financial but are more likely to be social or sanitary, accruing to the community as a whole. Everybody agrees that there are certain enterprises which ought to be managed by the local authority as efficiently and economically, of course, as possible, but without any hope of profit. In the preceding article I dwelt on this point at some length, thus partially conceding one of the positions which the advocates of public ownership have always taken up—namely, that there are cases in which the communal operation of a public service cannot be rightly assessed by the ordinary test of a commercial audit. At the same time, I brought a variety of *a priori* arguments against another and equally favorite position of theirs—namely, that municipalities are better qualified to make a business success of their undertakings than are corporations. This contention was strongly assailed in the last article. If we assume that it was successfully assailed and that as a general rule local authorities are likely to be less careful, less provident, less business-like than ordinary boards of directors, and if we bear in mind the admission that a municipality at times is justified in incurring a monetary loss for the sake of some greater public gain, then the question we are clearly confronted with is this: Can any line be drawn between those enterprises that should be in public hands and those that should not? Is there any principle that can be laid down for guidance, or any formula at once explicit and comprehensive enough to serve as a touchstone in all emergencies?

The answer is that no such simple solution of the difficulty has been, or probably ever will be, arrived at. But there are certain considerations which when taken together may serve as something more than makeshift direction-posts. The most earnest advocates of public ownership, for instance, admit that a municipality is not justified in attempting to meet any demand which is not sufficiently extensive and constant to keep the necessary plant fully employed. The most ardent opponents of public ownership, on the other hand, admit that in the case of many utilities the balance of advantages points to their municipalization. Thus practically no one objects to seeing sewerage systems, markets, water-works, baths, cemeteries, and slaughter-houses in public hands, while a very strong case, as a rule, can be made out for turning over harbors and docks to the management of the local authorities. In all these cases where municipal-

ization is generally held to be necessary, it appears, says Major Leonard Darwin, that there are three conditions usually fulfilled. (1) "The enterprise is one which would be a complete monopoly were it in private hands." (2) "The services rendered are of great importance to the community at large." (3) "The fair price to be paid for the work performed is not readily estimated in advance." When an undertaking fulfils these three conditions the argument for bringing it under public ownership, with or without public operation, is so strong as to be practically overwhelming. Every absolute and irreplaceable monopoly supplying a community with some essential utility on terms that cannot be regulated beforehand is *ipso facto* a fit subject for municipalization.

It is rather, however, over those enterprises that tend to become monopolies and that present no insuperable difficulties of public supervision and control—such as gas-works, electric lighting, street-cars, and telephones—that the battle for and against municipalization has chiefly raged. And here the example and experiences of Great Britain are of the first value and importance. No country in the world has plunged so heavily into the policy of municipal trading and none shows its good effects and its bad effects more plainly. The local debt of the United Kingdom at this moment amounts to over \$3,000,000,000; the capital sunk in reproductive undertakings considerably exceeds \$1,500,000,000; and the average per capita debt of the eighteen leading British cities is some \$114, or nearly three times as much as the average per capita debt of the eighteen principal cities in the United States. It is to Great Britain that the advocates of public ownership look to vindicate their ideas; it is from Great Britain that they draw their inspiration; and it is British example that they constantly hold up as a pattern for other nations. A study, therefore, of the general results produced in Great Britain by municipal trading on a large scale ought to be illuminating. But here again it is necessary to enter a caveat against the fallacy of arguing by analogies. It is necessary, for instance, to remember that Great Britain has evolved a high standard of civic purity; that practically there is no such thing as the spoils system in British municipal life; that the tradition of voluntary public service, while it is losing something of its old power, is still a vital force among the better elements

of the community; that municipal government throughout Great Britain has long since assumed a settled and stable form; and that countries which lack these advantages are fatally handicapped in the attempt to reproduce an experiment which owes such success as it has achieved in Great Britain to a unique combination of circumstances and which, if and so far as it has failed in Great Britain, is likely to be far more disastrous under other and less fortunate conditions.

There is a further fallacy that must be guarded against with equal vigilance, and that is the fallacy of seizing upon one particular town or one particular industry and arguing from it as to the universal beneficence or injuriousness of municipalization. Isolated instances in so complex a matter are of little real value, and we can only draw sound conclusions from the British experiments in public ownership if we treat them more or less in bulk and strike a dispassionate average after a survey of all the facts. Municipal trading, like any other political phenomenon, must be judged as a whole; its failures must be set against its successes; and the device of concentrating upon local and exceptional cases, whether by way of eulogy or of warning, ought to be ruled out of court. It is the more necessary to insist upon this because few subjects lend themselves so readily to the hasty, specious, *ex parte* assertions that are the worst enemies of truth. Major Leonard Darwin has taken what is unquestionably the better way when in attempting to arrive at the financial results of public ownership in Great Britain he likens the whole municipal industry of the country to a large industrial corporation. Analyzing its balance-sheet with masterly precision, he finds that public ownership in Great Britain earns profits that amount to 3.8 per cent. on the total capital provided if unremunerative works, such as cemeteries and public baths, are included, and to 4 per cent. if they are excluded. But these profits, meager as they are, are subject to a considerable discount. In the first place, provision has to be made out of them for paying interest on the loans and for maintaining a sinking fund; and when these charges have been satisfied the balance that is left over and that may be devoted to the relief of local taxation is less than one-tenth of the gross profits and represents at most four-tenths per cent. on the total capital. It is true that as time goes on and the debts are

liquidated the city treasury will get the benefit of a considerably larger proportion of the gross profits. But it will never get the whole of them. British municipalities, rightly or wrongly—and the point is one that admits of argument—make at present a deliberately inadequate provision for depreciation, leaving it to the future to furnish either from the profits or from further loans the outlay that will become necessary for the renewal or improvement of their industrial plant. Apart, moreover, from the capital expenditure which will thus have to be met, there are several reasons for doubting whether municipalities will be able to raise money as cheaply in the future as in the past, and whether their profits from their undertakings will not tend to diminish. Even, therefore, if we accept four per cent. as the present gross returns on the policy of public ownership, and look forward to the day when the liabilities incurred in contracting the loans have been extinguished, the municipal exchequer will certainly not be able to possess itself of more than a portion of the profits.

But can one, as a matter of fact, accept the figures contained in municipal balance-sheets at their face value? Can one rely on the profit of four per cent. which they disclose as a trustworthy index to the real situation? The question is a very necessary one, and it leads to the heart of the impassioned controversy over the ways and methods of municipal accounting. Those ways and methods are such that it is practically impossible to discover the true financial position of any municipal undertaking or to obtain the comprehensive and detailed information that would make a comparison between public and private management both practicable and instructive. Thus, generally speaking, the amount allotted to the depreciation account of municipal enterprises is less than one-eighth per cent. on the total capital. Thus, too, municipal committees in control of the local street-car service are apt to charge the expenses of street widening, not to the specific undertaking which has necessitated them, but to the general account. "A case in point," writes Mr. Robert P. Porter in his spirited volume on *The Dangers of Municipal Trading*, "is Liverpool. At the end of last year (1905) the local debt had been increased by over £1,000,000 for street widenings made on account of the municipal tramways, but when it was proposed to charge the tramway undertaking with a moiety



of the expense the motion was defeated. . . . Another municipality boasted of large street-railway profits. Steps were taken to examine the accounts, and it was found that £300,000 had been charged to the Public Works Committee of this municipality for street widening necessitated entirely by the installation of street railways. . . . The London County Council, however, have gone much further than this. Their tramway extensions necessitated extensive street improvements costing some millions sterling, only a tithe of the sum spent on which has been allowed to appear in the tramways' account, the other nine-tenths falling on the taxes. This easy method of relieving the capital expenditure of a municipal undertaking became revealed by the publication of a report wrung from the Council by the Moderate party in order that some light might be thrown upon the remarkable absence from the tramways' account of considerable capital expenditure made solely on account of the tramways. It was ascertained to be no less than £4,044,844, of which only £377,260 was debited to the tramway undertaking. The people of London were saddled with the rest." In the same way the committees responsible for these and similar enterprises rarely remember to saddle their accounts with any share of the expense of maintaining the official staff of the municipality, though with every fresh outburst of municipalization the staff has to be increased in number or its members have to receive a higher salary. They forget, again, as a rule, to debit their undertakings with office and clerical expenses, whereas the balance-sheet of every private corporation includes as a matter of course the cost of renting premises, of employing legal advice, and of maintaining its staff of clerks. Similarly there is very good ground for believing that the plants and property owned by municipalities in connection with their trading ventures are assessed much more leniently than if they were in private hands; just as municipalities that supply their own electric light are apt to swell their "profits" by charging a disproportionately high rate for lighting the streets and municipal offices.

All these peculiarities of municipal bookkeeping have to be taken into account; and their cumulative effect is undoubtedly to raise a suspicion that the estimated profit of four per cent. is to some extent, and probably to a considerable extent, fictitious. But there remains a far heavier deduction to be made from it than any I have so far enumer-

ated. Every municipality that purchases a public utility from its private owners, besides being obliged to raise a loan to complete the purchase, to pay interest on the money thus borrowed, and to set aside an annual sum out of the profits by way of a sinking fund, also surrenders the rental which the private owners had agreed to pay into the city exchequer. This is a consideration which, though constantly overlooked, and especially by the advocates of municipal ownership, is really vital. To trace its many and varied consequences and implications would take one far beyond the scope of these articles. But I may, perhaps, be allowed to summarize the conclusions to which I have been led by a study of all, or nearly all, the available evidence. The first is that there is no street-car service, no gas or electric lighting plant, and no telephone system at present owned and operated by a British municipality that would not bring in larger net profits to the local exchequer if its conduct and management were leased to a private corporation. The second is that if both the ownership and the operation of these utilities had remained with or were handed over to private corporations, under a proper system of regulation, the local exchequers would be the gainers by a considerably larger sum than they now derive from the policy of municipalization or than they would derive from municipal ownership without municipal operation. In other words, from the standpoint of financial advantage to the municipal treasury and from the standpoint of relieving local taxation, the best system is that of private ownership and operation of the public services under due control and supervision of the local authority; the next best system is that of municipal ownership with the actual management and working of the undertaking leased to a corporation; and the worst and least profitable system is that of municipal ownership combined with municipal operation.

If the day should ever come when British municipalities would find themselves free from debt on account of their trading ventures, in possession of a series of monopolies not one of which was imperiled by internal improvements or external competition, and able, therefore, to devote most of their gross profits to the relief of taxation, these conclusions might, no doubt, have to be revised. But until that day comes I believe them to be founded on fact and reason. For the present, at any rate, and in spite of all the figures

that are flourished before us of Manchester's success with her gas-works, and Glasgow's with her street-cars, it remains extremely doubtful whether British municipalities as a whole are not actually losing money instead of making it on their municipal enterprises, and whether their alleged gross profit of four per cent. is not wiped out altogether by the interest on the loans, by the provision for the sinking fund, by the subtraction of the various bookkeeping artifices which have served to bolster it up, and by the necessity of setting against it the rentals from private corporations that were surrendered when municipalization was resorted to. "English statistics," says one of their most careful and well-equipped students, Major Leonard Darwin, "do not disprove, and may, it appears to me, be quoted as giving some support to the view which I hold—namely, that English cities have increased the immediate burden of taxation by their municipal ventures by over one per cent. on the capital sunk therein." And as the sinking funds which British municipalities are compelled to find for the redemption of their industrial debts also amount to a little over one per cent. on the total capital, he concludes that "every penny which English cities have invested in industrial ventures has been raised by taxation which would not have been raised had the industries in question not been municipalized. The profits which will eventually be made out of municipal industries consist, therefore, of nothing but the interest on the invested savings of the people: an interest which each individual might have obtained for himself had the money not been drawn from him by taxation. If this be a correct view of the situation, it seems fair to conclude that England, if she is not losing, is gaining nothing whatever by her municipal enterprises."

It appears from all this to be a moderately reasonable inference that, if British experience may be taken as a guide, the hope of any appreciable relief to local taxation or of any appreciable addition to local revenues as the result of municipal trading is not likely to be realized. But it must not be forgotten that the friends of public ownership quite legitimately refuse to be tied down exclusively to the test of finance, and that they insist that even if the ratepayer may not benefit much in pocket by the municipalization of the public services, he benefits as a consumer by the lowered cost and improved quality of the services thus placed at his dis-

posal. One of the commonest methods, indeed, of carrying on this controversy is to publish deadly parallel columns of the prices charged for gas or electric light or street-car fares by municipalities and by corporations respectively. Nothing could be more natural than such a method and nothing more essentially unfair, for to make such comparisons really valuable it would be necessary to consider a vast variety of factors that are usually ignored—the cost of raw material and of labor in the different cities under question, the size of the population and of the territory served by the municipality on the one hand and by the corporation with which it is compared on the other, the terms and nature of the corporation's franchise, the return it had pledged itself to make to the city treasury in the form of rental, and so on. It is impossible to reduce all these factors to any common denominator; the data does not exist to enable one to draw a scientific and exhaustive comparison, or indeed any comparison at all that is not wholly casual and restricted. At the same time, the probability is that if all the necessary data could be collected and examined, municipal trading in Great Britain would show a certain small advantage over private corporations in the matter of the cost of the services supplied, but would not show any corresponding advantage in point of quality. Those, however, are assumptions which, whether reasonable or otherwise, can neither be proved nor disproved. Meanwhile what appears to be certain from a study of British experiences is that municipal enterprise always leads to an immediate increase of taxation; that its other financial results, whether good or ill, are at present so indefinite as to be almost negligible; and that the many and varied abuses of a political and economic character which it entails cannot, therefore, be condoned on the plea of its commercial success.

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*(To be Continued)*